

Documentation Required to Determine Eligibility for Certain Tax Benefits

Issue

Recent legislation has changed, extended, and/or expanded the following tax benefits:

- First-time Homebuyer Credit
- Additional Standard Deduction for Real Estate Taxes
- Sales Tax Deduction for Vehicle Purchases
- Education Credits – Qualified Expenses (books, supplies, tuition, etc.)
- Non-business Energy Property Credit – Qualified Purchases

As a result, the information and/or documentation a volunteer tax preparer must obtain to determine taxpayer eligibility and the amount of qualified expense/purchase may also have changed.

Purpose

This VTA provides guidelines regarding what documentary evidence is required for volunteer return preparers to determine taxpayer eligibility and the amount of the qualified expense/purchase for the First-time Homebuyer Credit, Sales Tax Deduction for Vehicle Purchases, Real Estate Taxes Paid, Education Credits, and Non-business Energy Property Credit.

First-time Homebuyer Credit (Form 5405)

The taxpayer must provide the following documentation, which will be attached to the tax return when it is filed:

- For purchasers of conventional homes, a copy of Form HUD-1, *Settlement Statement*, or other settlement statement, showing all parties' names and signatures, property address, sales price, and date of purchase.
- For purchasers of mobile homes who are unable to get a settlement statement, a copy of the executed retail sales contract showing all parties' names and signatures, property address, purchase price and date of purchase.
- For a newly constructed home where a settlement statement is not available, a copy of the certificate of occupancy showing the owner's name, property address and date of the certificate.

Taxpayers qualifying for the Credit as long-time residents of the same main home must show that they lived in their old homes for a qualified five-consecutive-year period. The IRS recommends attaching, in addition to the documents described above, any of the following documentation for the five-consecutive-year period:

- Form 1098, *Mortgage Interest Statement*, or substitute mortgage interest statements
- Property tax records or
- Homeowner's insurance records

Taxpayers claiming the FTHB Credit on their original 2009 return must mail the return to IRS with the above attachments; it cannot be filed electronically.

Additional Standard Deduction for Real Estate Taxes (Schedule L)

Taxpayers must provide the amount of real estate taxes paid on their primary residence during the tax year. Possible documentary sources of this information include:

- Assessment notices
- Forms 1098 (escrow account payments)
- Receipts
- Cancelled checks

Volunteer return preparers **may** accept the taxpayer's oral or written statement regarding the amount of their payments. Preparers should not, however, estimate the amount for a taxpayer.

NOTE: If the taxpayer provides the information verbally, the return preparer should note the amount on the Intake and Interview Sheet and that the information was obtained during the taxpayer interview.

Sales Tax Deduction for Vehicle Purchases (Schedule L)

Taxpayers must provide the date of purchase of the new vehicle, the purchase price, and the amount of sales tax paid. Possible documentary sources of this information include:

- Purchase contract
- Receipt
- Loan document
- Cancelled checks

Volunteer return preparers **may** accept the taxpayer's oral or written statement regarding the date and amounts of their purchase. Preparers should not, however, estimate the amounts for a taxpayer.

NOTE: If the taxpayer provides the information verbally, the return preparer should note the purchase date and amounts on the Intake and Interview Sheet and that the information was obtained during the taxpayer interview.

Education Credits (Form 8863)

To claim an Education Credit (American Opportunity/Hope or Lifetime Learning) or a Tuition and Fees Deduction adjustment, taxpayers must provide Form 1098-T issued by a qualified educational institution for each eligible student. Return preparers should confirm payment of amounts shown on Forms 1098-T with the taxpayer. Taxpayers eligible to claim the American Opportunity Credit may also claim amounts not shown on Form 1098-T that they paid for required course materials (books, supplies, computers, etc.) Possible documentary sources for these amounts include:

- Receipts
- Cancelled checks
- Credit card statements
- Bills

Volunteer return preparers **may** accept the taxpayer's oral or written statement regarding the amount of additional required course materials (for American Opportunity Credit only). Preparers should not, however, estimate the amounts for a taxpayer.

NOTE: If the taxpayer provides the information about additional required course materials verbally, the return preparer should note the amount on the Intake and Interview Sheet and that the information was obtained during the taxpayer interview.

Non-business Energy Property Credit (Form 5695 Part I)

There are two kinds of property for this credit. Here are some key points to consider:

- *Qualified energy efficiency improvements* include insulation, exterior windows, exterior doors, and metal roofing. Products must meet certain requirements. Does not include installation costs.
- *Qualified residential energy property* includes certain water heaters, heat pumps, air conditioners and other items specified in the instructions to Form 5695. Products must meet certain requirements. Installation costs are includable.

For property purchased before June 1, 2009, return preparers can rely solely on the manufacturers' certifications and Energy Star labels provided by the taxpayer to determine that the purchase qualifies.

Manufacturers have been advised that they should not continue to provide certifications for property that fails to meet the new standards. The IRS has [issued Notice 2009-53](#) that will allow manufacturers to certify that their products meet the new standards. Please note, not all ENERGY STAR qualified products qualify for a tax credit. For detailed information about qualifying improvements, visit the U.S. Department of Energy's [EnergyStar Web site](#) and the [EnergyStar Frequently Asked Questions site](#).

Volunteer return preparers may not accept the taxpayer's oral or written statement regarding the eligibility and amount of their purchase. The taxpayer must provide documentation including manufacturers' certifications, Energy Star labels, and receipts. The preparer should use these documents in conjunction with the resources listed above to determine eligibility.

NOTE: Residential Energy Efficient Property Credit (Form 5695 Part II) is complex and therefore out of scope for the VITA/TCE Program.

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